

CUPE

The Facts

The Conference Board on P3s: Biased and superficial

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In late January, the Conference Board of Canada published a report entitled *Dispelling the Myths*. The study purports to show Canadian public-private partnerships (P3s) have delivered efficiency gains for the public sector, a high degree of cost certainty, and greater transparency than conventional procurement.

However, this report is astoundingly biased and superficial in its analysis and should not be accorded any degree of credibility.

The report takes “value for money” reports produced by provincial P3 promotion agencies at face value, ignores recent critical reports by auditors general, sets up biased comparisons in its case studies, misinterprets evidence and includes no substantial analysis to support its claims.

Below are some of the problems with this report:

1. Relies on superficial “value for money” reports for efficiency and cost saving claims

The Conference Board claims about efficiency and cost savings rely entirely on value for money (VfM) reports produced by provincial P3 agencies. These VfM reports are highly superficial, and present only summary information that has been manipulated by the agencies.

The assumptions used in these VfM reports, particularly in terms of discount rates and risk transfers, are highly questionable. These assumptions exaggerate the costs of traditional public sector procurement and minimize the long-term cost of P3s. Recently, auditors general have strongly criticized the validity of these VfM reports. But the Conference Board report ignores these critiques.

Based on a simple summary of these superficial and biased “value for money” reports—and with no other actual evidence—the Conference Board report concludes P3s have delivered important efficiency gains for the public sector.

In contrast, a 2008 KPMG survey of Canadian government executives reported:

“Although 53 percent of Canadian executives surveyed have already implemented some form of partnerships with private sector, and 18 percent intend to do so in the next two years, only two percent believe that greater private-sector involvement will actually help improve public service efficiency.”ⁱⁱ

2. Ignores relevant auditor-general reports critical of P3s

One of *Dispelling the Myth*’s most glaring omissions is that it ignores or dismisses major auditor-general criticisms issued recently in several provinces. This is inexcusable, because auditors general are established to be—and widely respected as—the foremost independent and objective reviewers of public finances. The report selectively profiles P3s that haven’t been audited, and ignores relevant criticisms of P3s and the P3 process by auditors general.

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For instance, the report suggests provincial auditors have reviewed value for money methodologies and “found them to be sound”. However, the opposite is true. For instance:

- In November 2009, the Auditor General of Quebec stated: “*In our opinion, the analyses of the value added produced by PPP Québec do not make it possible to support the conclusion that their completion using the PPP delivery method is preferable to carrying out the work under the conventional method (public sector) for the following reasons.*” The auditor’s report then lists six reasons why the PPP agency’s VfM methodology was essentially useless.ⁱⁱ This, combined with other P3 scandals in the province, put the Quebec government’s P3 approach and agency in disarray—with news headlines even stating PPPs in the province were dead. It is impossible that the authors of the Conference Board report were not aware of this, yet there is not one mention of these issues.
- The Conference Board report does mention the Auditor General of Ontario’s report on Brampton’s William Osler P3 hospital, including once to suggest that Infrastructure Ontario’s VfM methodology was sound. But *Dispelling the Myths* neglects to mention the key conclusions of this audit: “that the cost estimates for the government to do the project were overstated by a net amount of \$634 million” and “[h]ad the province financed the design and construction costs at its lower rate [of borrowing], the savings would be approximately \$200 million over the term of the project’s P3 arrangement”.ⁱⁱⁱ
- More recently, Nova Scotia’s Auditor General published a report examining the province’s contracts for P3 schools.^{iv} His audit found that the P3 arrangement cost the province’s school boards at least \$52 million more in just two areas. It also uncovers large loopholes in the contracts, and major safety violations. These findings, along with earlier damning audits of the province’s P3 schools, are ignored in the Conference Board report.
- The Conference Board report suggests everything is fine with British Columbia’s P3 methodology. In doing so, it completely ignores published critiques about the provincial P3 process from leading forensic accountants Ron Parks and Rosanne Terhart. *Dispelling the Myths* also disregards recent research by B.C. economist Marvin Shaffer highlighting major faults in Partnerships BC’s methods. A 2006 report by Shaffer found the Sea to Sky Highway P3 cost B.C. taxpayers \$220 million more than if it had been traditionally financed and built.^v

It is revealing that, of the more than 30 people interviewed for this report, there was not one person from a provincial auditor’s office. With the exception of one academic and one union official (on the record as being in favour of P3s), all the people interviewed were from P3 companies, P3 promotion agencies (or government officials acting in a promotional capacity), or from agencies directly engaged in delivering P3s.

With this level of outright bias in its selection of evidence, it is easy to see how the report’s conclusions also reflect this bias.

3. Highly biased comparisons in its case studies

While the Conference Board study ignores auditors’ reports that criticize P3s, it selectively highlights conventional projects that drawn auditors’ criticism.^{vi} These represent a very small fraction of all conventionally-funded projects.

The report sets up an artificial comparison between older public sector projects that have been critically reviewed by auditors and P3s that are still not completed. This type of comparison is as absurd as comparing a group of young boys with no criminal record and a group of adult women who have a criminal record, and concluding women are more violent.

With only a little bit of effort, the Conference Board study could have obtained financial information on more comparable conventional projects. But this type of information wouldn't have accorded with the study's predetermined conclusion that conventional procurement is less efficient and less transparent.

4. Misinterpretation of evidence

In many other instances, this Conference Board report misinterprets or twists evidence to suit its own biased conclusions. For example:

- The report claims P3s are delivered faster than conventional projects. This claim can only be made by ignoring the much longer lead time—usually years—involved in getting to the contract stage for P3s.^{vii} It is telling that when federal and provincial governments wanted to get projects underway quickly with recent stimulus funding, all P3 requirements were jettisoned. International evidence also shows complicated negotiations often mean lengthy delays for P3 projects to get started.
- *Dispelling the Myths* also suggests P3s are more transparent than traditional procurement, because provincial P3 agencies release value for money reports and other project material on their websites. The material released about P3 projects by these P3 agencies is largely superficial, biased or full of irrelevant details. In fact, much more detailed information about public projects is available through public disclosure or access to information, while much of this information for P3s is kept secret from the public. For instance, in B.C., financial information and business cases for P3s have been declared cabinet secrets. The Ontario Health Coalition had to fight in court for years to get financial details about Brampton's William Osler P3 hospital made available. Even then, many of these details were restricted.
- On the issue of service quality and standards, the Conference Board report acknowledges that over 40 per cent of P3s (five out of 12) in the service phase had already incurred penalties for substandard performance. But the report takes this as evidence the system is working. Based on absolutely no evidence, the Conference Board report suggests there are more lapses of service standards through public provision—because the government doesn't operate at arm's length from itself. This is twisted logic indeed! In fact, the public sector is traditionally more risk averse and is also able to maintain much higher standards through direct control without ongoing and expensive monitoring and oversight of P3 contracts.

These are just a few examples of bias, superficiality and misinterpretation of evidence in the Conference Board's *Dispelling the Myths* report. The report claims to provide "an impartial assessment of the benefits and drawbacks of using P3s," but it does nothing of the sort. It is little more than a compendium of promotional material produced for the self-interest of its funders—the federal and provincial P3 promotion agencies.

It would be easy for CUPE to go along with the P3 gravy train: ensure that our members are hired by the P3 through employee successor rights deals, accept the board of director seats that P3 agencies have offered us if we come on board, and encourage our pension funds to actively invest in P3s to obtain high rates of return.

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But these high rates of return come at a price for the public and for future taxpayers. The P3 parade provides excellent returns for investors today because future generations will pay the price through massive and growing liability payments. Somebody is going to have to pay for P3s—and somebody needs to be honest with the public about these growing costs and liabilities. Unfortunately the Conference Board's latest report does nothing to shed light on this crucial issue.

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- i KPMG, *Performance Agenda: An International Government Survey*, Canadian Edition, 2008. p. 15
http://www.kpmg.ca/en/industries/ps/documents/3623_PerformanceAgenda_v8b_WEB.pdf
- ii CUPE, *Analyses biased in favour of P3s*, 2009. <http://cupe.ca/privatization-watch-november-2009/analyses-biased-favor-p3s>; Vérificateur général du Québec, Communiqué, 18 November 2009.
http://www.vqq.gouv.qc.ca/en/en_salle-de-presse/en_Communiciques/en_Fichiers/en_Press_Release20091118-05.pdf
- iii CUPE, *Auditor slams Brampton hospital*, 2008. <http://cupe.ca/privwatchdec08/auditor-general-brampton-civic-hospital-p3>; Ontario Health Coalition, *When Public Relations Trump Public Accountability*, 2008.
<http://www.web.net/ohc/jan08report%20final.pdf>; Auditor General of Ontario, *2008 Annual Report of the Office of the Auditor General of Ontario: Brampton Civic Hospital Public-private Partnership Project*, 2008.
- iv CUPE, *Auditor General slams NS P3 schools*, 2010. <http://cupe.ca/public-private-partnerships/attorney-generals-review-ns-p3-schools>. Auditor General of Nova Scotia, *Report of the Auditor General*, February 2010, Chapter 3.
<http://www.oag-ns.ca/feb2010/full0210.pdf>.
- v Marvin Shaffer, « Flawed analysis props up B.C. public-private partnerships”, *Vancouver Sun*, 19 November, 2009.
<http://www.vancouversun.com/Flawed+analysis+props+public+private+partnerships/2240146/story.html>; Marvin Shaffer, *The Real Cost of the Sea-to-Sky P3*, Canadian Centre for Policy Alternatives, B.C. Office, 2006.
<http://www.policyalternatives.ca/publications/reports/real-cost-sea-sky-p3>
- vi Somewhat hypocritically, the Conference Board report claims that it included these examples of conventional projects because these are well-documented projects (p. 47); meanwhile it says it ignores older P3 projects because they have been well-documented and reviewed (including by auditors) (p. ii, 6)!
- vii For instance, the conventionally-procured Anthony Henday Drive SW project in Edmonton was completed in October 2006 (at a cost of \$17.2 million a kilometer), while the P3 Anthony Henday Drive SE project was completed a year later in October 2007 (at a cost of \$44.8 million per kilometer) and yet this report repeats claims that the P3 project was faster because they ignore the much longer time it took for the P3 to get to the contract stage.